

VS ASSOCIATES

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SERVICE TAX

Future growth path for service tax in India.

Service tax is envisaged as the tax of the future. Well synchronized taxation on manufacturing, trade (domestic & international) and service without giving rise to cascading effect of taxation would be an ideal worth pursuing in the immediate future. This would bring in VAT in its truest sense.

Continued growth in GDP accompanied by higher rate of growth in service sector promises new & wider avenues of taxation to the Government. If the tax on services reduces the degree of intensity of taxation on manufacturing and trade without forcing the Government to compromise on the revenue needs, then one of the basic objectives of taxing the service sector would be achieved.

Voluntary tax compliance on the part of taxpayers demands prudent accounting practices and transparency in the conduct of their business. Marginal rates of taxation would be conducive in this process. Many new services may be brought under the tax net in future. The inclusion of all value added services in the tax net would yield larger amount of revenue and make the existing tax structure more elastic.

Advanced economies of Western Europe, North America and Far East have share of service sector in their GDP ranging from 60% to 80%. The growth in absolute quantum of GDP and proportion of Service-sector in GDP holds promise for larger revenue generation without increasing the existing level of taxation

Future Course of Action

The following items of works have to be attended to urgently to improve the administration of Service Tax in the country.

1. Target of Rs. 17,500 crores Service Tax collection for f.y. 2005-06 to be exceeded
2. Intensify the field survey operations to ensure that all taxable service assesseees are brought into the tax net and Service Tax due from them are collected without hitch.
3. Action plan for the f.y. 2005-06 to be implemented and monitored by various levels of supervisory officers on a monthly basis.

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4. While the basic tenet of voluntary compliance of Service Tax law has to be adhered to, recalcitrant/habitual evaders of Service Tax have to be booked for appropriate action under the law. There could be no leniency in this regard.
5. The statutory change to prosecute frequent offenders/tax evaders is needed in the Act.
6. Facilitate the implementation of the recommendations of Expert Group set up by the Government, so that steps for early rationalization and enlargement of the scope of service levy in the country is hastened.
7. Design and implement an Electronic Tax Administration (ETA) system for service tax so that service tax could be administered as first e-tax of the country. Directorate General of Systems have developed software for electronic filing of ST-3 returns for 10 major services from April, 2003. All the Chief Commissioners have been requested to arrange meetings of service providers and service tax staff to inculcate the awareness about E-filing of returns/E-Tax Administration.
8. Concentrate on liquidation of Service Tax arrears and issue necessary clarifications to the field officers so that arrears linked up with disputed interpretations of the provisions of the law could be easily resolved.
9. Attend to all major court cases relating to Service Tax law for early decision.
10. Deploy adequate staff to attend to the service tax work and provide infrastructure and conveyance to implement service tax law effectively.

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